

**CORPORATE GOVERNANCE STRUCTURE AND FIRM
PERFORMANCE: EVIDENCE FROM CONSUMER PRODUCT
FIRMS IN MALAYSIA**

**A thesis submitted to COLLEGE of BUSINESS in partial
fulfillment of the requirement for degree
Master of Science (International Accounting)
UNIVERSITY UTARA MALAYSIA**

By

Ala. A. E. AlBeera

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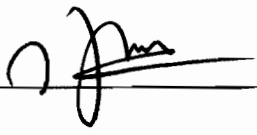
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ABSTRAK

Tujuan utama kajian ini adalah untuk mengetahui struktur corporate governance dan prestasi daripada syarikat-syarikat produk pengguna yang disenarai di bursa Malaysia. Data dikumpulkan dari 51 syarikat di dalam tahun kewangan 2007. Lima pemboleh ubah yang digunakan dalam kajian ini adalah size board, board composition, audit committee size, CEO duality dan CEO tenure daripada struktur corporate governance. Dua cara pengukuran daripada prestasi syarikat ini adalah ROA & OCF.

Analisa regresi telah digunakan untuk kajian ini. Hasilnya menunjukkan audit committee size berhubungan positif dengan ROA, tetapi proportion of independent directors berhubungan negative dengan ROA. Hubungan antara OCF dengan board size dan audit committee size adalah positif. Hasil menunjukkan bahawa pemboleh ubah yang mempunyai pengaruh terbesar daripada struktur corporate governance pada prestasi syarikat adalah audit committee size.

ABSTRACT

The main objective of this study is to examine the relationship between corporate governance structures and firm performance of consumer product firms listed on the Bursa Malaysia. Data were gathered from 51 companies in the financial year 2007. Five variables of corporate governance structures which are board size, board composition, audit committee size, CEO duality and CEO tenure were used in this study. Two measures of firm performance are considered which are return on assets (ROA) and operating cash flow (OCF).

Regression analysis was used to examine the relationship between corporate governance and firm performance. The result indicates that audit committee size was positively related to ROA, while the proportion of independent directors is negatively related to ROA. The relationship with OCF indicates that board size and audit committee size are positively related. The results show that the most influence variable of corporate governance structure on firm performance is audit committee size.

ACKNOWLEDGEMENT

In the name of Allah, the Most Gracious and the Most Merciful. Peace and blessings of Allah be upon Prophet Muhammad.

First and foremost praise and gratitude go to Allah, the Almighty, for bestowing me with great strength, patience, and courage in completing this thesis.

There are a number of individual whom I owe a special dept of gratitude. Firstly, my sincere appreciation, gratitude, and heartfelt thanks go to my supervisor, Dr. Hasnah Kamardin, the dedicated and aspiring mentor for her continuous intellectual guidance and wise counseling throughout the preparation of this thesis. Enduring this journey would not have been possible without her encouragement, guidance, thoughtfulness, and farsightedness.

Moreover, my heartfelt thanks are extended to the academic and non-academic wonderful staff for their most helpful assistance, especially, to all my lecturers in College of Business at University Utara Malaysia.

Besides, I also would like to express my gratitude to my parents, and my beloved family for their love, encouragement, patience, support, financial support and sacrifice they have given me during the implementation of project, always concern about my education and giving me various support in the success of my study. What I have done, I have done to make you proud.

Last but not least, I would like to express my gratitude to all my friends, especially, Captain Awad, Abdel-Fattah, Khalid, Ibrahim, Mohamed, Elkwash, and Al-Shish. Only Allah S.W.T can repay your kindness.

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LIST OF ABBREVIATIONS

Abbreviation	Description of Abbreviation
CEO	chief executive officer
MICG	Malaysian Institute of Corporate Governance
OCF	Operating cash flow
OECD	Organization for Economic Cooperation and Development
OLS	Ordinary least squares
ROA	Return on assets
2SLS	Two-stage least squares regression
NEDs	Non-executive directors
BSIZE	Board Size
BODIND	Board Independent
TUNRECEO	CEO Tenure
DUALCEO	CEO Duality
AUDITSIZE	Audit Committee Size

CHAPTER 1: BACKGROUND OF THE STUDY

1.1 Introduction and Background of the Study

Businesses around the world need to develop and grow as well as they can in order to be able to attract funding from investors. In order to invest funds in particular business, investors need to ensure that the business is financially stable and potentially capable of producing profits in the future (Mallin, 2007). Therefore, if the real company position and its performance are poor, the company will be less attractive to investors. Failure to attract sufficient levels of capital may threaten the businesses and may lead to serious consequences for the economy as a whole.

Corporate governance has become one of the fundamental pillars that underpin the economic units. Many organizations and corporations confirm to the advantages of this concept and encourage its application in various economic units, such as recommend by the Cadbury Commission in 1992 in the United Kingdom, the Organization for Economic Cooperation and Development (OECD) in 1999, the public pension fund (Calpers) in the U S A , as well as the Commission of Blue Ribbon Committee in the United States of America, in 1999. In addition, there are several countries that have adopted corporate governance around the world, such those in Continental Europe, Central and Eastern Europe, Asia-Pacific and South Africa.

Governances around the world look forward to the corporate governance for safety assurance in business environment. According to the OECD (2003, p.3),

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